

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name CHARLEVOIX PUBLIC LIBRARY	County CHARLEVOIX
Fiscal Year End JUNE 30, 2006	Opinion Date NOVEMBER 7, 2006	Date Audit Report Submitted to State NOVEMBER 17, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

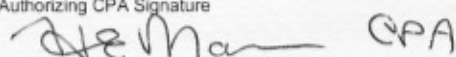
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) MASON & KAMMERMANN, PC		Telephone Number (231) 547-4911	
Street Address 110 PARK AVENUE		City CHARLEVOIX	State MI
		Zip 49720	
Authorizing CPA Signature  CPA	Printed Name HUGH E MASON		License Number 1101008161

CHARLEVOIX PUBLIC LIBRARY

CHARLEVOIX, MICHIGAN

FINANCIAL STATEMENTS

AND OTHER FINANCIAL INFORMATION

for the year ended June 30, 2006

MASON & KAMMERMAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHARLEVOIX, MICHIGAN

Charlevoix Public Library

Table of Contents

Independent Auditor's Report	1-2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Governmental Funds	
Balance Sheet	5
Reconciliation of the Government Fund Balances Sheet of Governmental Funds to the Net Assets of Governmental Activities	6
Statement of Revenues, Expenditures and Changes in Fund Balance	7
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	8
Notes to Financial Statements	9-18
Required Supplementary Information	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary Comparison Schedules:	
General Fund	19-20
Capital Projects Fund	21

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

November 7, 2006

Board of Trustees
Charlevoix Public Library
Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Charlevoix Public Library of Charlevoix, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements referred to above do not include Management's Discussion and Analysis, which is required supplementary and should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Charlevoix Public Library as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Mason & Kammermann PC

Mason & Kammermann, P.C.
Certified Public Accountants

Charlevoix Public Library

Statement of Net Assets June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current Assets	
Cash and Cash Equivalents	\$ 3,295,720
Taxes Receivable	2,574
Prepaid Expenses	8,644
Total Current Assets	<u>3,306,938</u>
Noncurrent Assets	
Capital Assets, net of accumulated depreciation	6,651,963
Unamortized Bond Expenses	49,123
Total Noncurrent Assets	<u>6,701,086</u>
Total Assets	<u>10,008,024</u>
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts Payable	400,058
Accrued Wages	10,853
Accrued Interest	47,262
Current Portion of Long-Term Debt	210,000
Total Current Liabilities	<u>668,173</u>
Noncurrent Liabilities	
Long-term Debt, Net of Current Portion	6,990,000
Compensated Absences	14,317
Total Noncurrent Liabilities	<u>7,004,317</u>
Total Liabilities	<u>7,672,490</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	(498,914)
Restricted for Capital Projects	1,901,427
Restricted for Debt Service	102,137
Unrestricted	830,884
Total Net Assets	<u>\$ 2,335,534</u>

The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Statement of Activities For The Year Ended June 30, 2006

	<u>Expenses</u>
Recreation and Culture	
Salaries	\$ 207,474
Professional Services	23,076
Benefits	48,684
Materials	23,370
Occupancy	20,209
Depreciation	47,962
Amortization	2,729
Interest & Fees	287,992
Other	<u>50,858</u>
Total Program Expenses	712,354
Program Revenues	
Grants	<u>9,714</u>
Net Program Expenses	(702,640)
General Revenues	
Property Taxes - General Operating	738,905
Property Taxes - Debt	435,486
Investment Earnings	65,158
Penal Fines	52,295
State Aid	7,777
Donations	403,570
Other	<u>39,159</u>
Total General Revenues	<u>1,742,350</u>
Change in Net Assets	1,039,710
Net Assets - Beginning of Year	<u>1,295,824</u>
Net Assets - End of Year	<u><u>\$ 2,335,534</u></u>

The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Governmental Funds Balance Sheet June 30, 2006

<u>Assets</u>	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Cash and Cash Equivalents	\$ 848,260	\$ 148,976	\$ 2,298,484	\$ 3,295,720
Prepaid Expenditures	5,643	-	3,001	8,644
Taxes Receivable	2,151	423	-	2,574
Total Assets	<u>\$ 856,054</u>	<u>\$ 149,399</u>	<u>\$ 2,301,485</u>	<u>\$ 3,306,938</u>
 <u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ 400,058	\$ 400,058
Accrued Wages	10,853	-	-	10,853
Total Liabilities	<u>10,853</u>	<u>-</u>	<u>400,058</u>	<u>410,911</u>
Fund Balance				
Reserved	-	149,399	1,901,427	2,050,826
Unreserved				
Designated	19,938	-	-	19,938
Undesignated	825,263	-	-	825,263
Total Fund Balance	<u>845,201</u>	<u>149,399</u>	<u>1,901,427</u>	<u>2,896,027</u>
Total Liabilities & Fund Equity	<u>\$ 856,054</u>	<u>\$ 149,399</u>	<u>\$ 2,301,485</u>	<u>\$ 3,306,938</u>

The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Governmental Funds Reconciliation of the Governmental Fund Balances of Governmental Activities to the Statement of Net Assets of Governmental Activities June 30, 2006

Total Governmental Fund Balances \$ 2,896,027

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets and unamortized expenses used in governmental activities are
not financial resources and are not reported in the governmental funds
balance sheet

Cost of capital assets	\$ 7,340,303	
Accumulated depreciation	<u>(688,340)</u>	6,651,963

Unamortized Bond Expenses		49,123
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Long term liabilities are not due and payable in the current period and are
not reported in the funds

Bonds Payable	(6,990,000)
Current Maturities of Debt, Due in One Year	(210,000)

Compensated absences are included as a liability

Compensated Absences	(14,317)
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Interest payments on long-term liabilities are not due and payable in the
current period and are not reported in the funds

Accrued Interest	<u>(47,262)</u>
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Net Assets of Governmental Activities	<u><u>\$ 2,335,534</u></u>
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The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

For The Year Ended June 30, 2006

	General Fund	Debt Service	Capital Projects	Total Governmental Funds
Revenues:				
Local Sources				
Property Tax Levy	\$ 738,905	\$ 435,486	\$ -	\$ 1,174,391
Earnings on Investments and Deposits	15,624	4,987	44,547	65,158
Grants	9,714	-	-	9,714
Donations	2,839	30,000	370,731	403,570
Other	34,234	-	4,925	39,159
Intermediate Sources				
Penal Fines	52,295	-	-	52,295
State Sources				
State Aid	7,777	-	-	7,777
Total Revenues	<u>861,388</u>	<u>470,473</u>	<u>420,203</u>	<u>1,752,064</u>
Expenditures:				
Salaries	207,474	-	-	207,474
Employee Fringe Benefits	48,684	-	-	48,684
Professional Services	23,076	-	-	23,076
Occupancy	20,209	-	-	20,209
Supplies and Materials	56,512	-	-	56,512
Capital Outlay	7,763	-	4,909,229	4,916,992
Debt Service:				
Principal	-	180,000	-	180,000
Interest	-	287,992	-	287,992
Other	50,858	-	-	50,858
Total Expenditures	<u>414,576</u>	<u>467,992</u>	<u>4,909,229</u>	<u>5,791,797</u>
Excess of Revenues Over (Under) Expenditures	446,812	2,481	(4,489,026)	(4,039,733)
Fund Balances - Beginning of Year	<u>398,389</u>	<u>146,918</u>	<u>6,390,453</u>	<u>6,935,760</u>
Fund Balances - End of Year	<u>\$ 845,201</u>	<u>\$ 149,399</u>	<u>\$ 1,901,427</u>	<u>\$ 2,896,027</u>

The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Governmental Funds Reconciliation of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For The Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (4,039,733)

Amounts reported for governmental activities in the statement
of net assets are different because:

Governmental funds report capital outlays and intangible assets as expenditures in the statement of activities.
These costs are allocated over their estimated useful lives as depreciation or amortization

Depreciation Expense	(47,692)
Capital Outlay	4,945,902
Amortization Expense	(2,729)

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces long-term debt)

Bond Payable Payment	180,000
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Accrued interest is recorded in the statement of activities when incurred; it is not reported
in governmental funds until paid

Accrued Interest - Beginning of Year	48,341
Accrued Interest - End of Year	(47,262)

Compensated Absences are reported on the accrual method in the statement of activities, and
recorded as an expenditure when financial resources are used in the governmental funds:

Compensated Absences - Beginning of Year	18,279
Compensated Absences - End of Year	(14,317)

Changes in Net Assets - Governmental Activities	<u><u>\$ 1,039,710</u></u>
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The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Charlevoix Public Library was created as a District Library on January 1, 1997, by agreement between Charlevoix Public School, City of Charlevoix, and Townships of Charlevoix, Eveline, Hayes, Marion and Norwood pursuant to the District Library Establishment Act. The Library Board consists of seven members, appointed one each by the governmental entities creating the District. Prior to July 1, 1997 the Library was operated as a fund of the Charlevoix Public School District.

The Library's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No.14.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to financial statements presented in the previous financial reporting model,

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2006

are reported as separate columns in the fund financial statements. The Library has governmental funds called the General Fund, Debt Service Fund and Capital Projects Fund.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2006

The Library reports the following major governmental funds:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

The Capital Projects Fund accounts for the acquisition of fixed assets or construction of major capital projects.

The Debt Service Fund is used to account for the annual payments of principal, interest and expenses in connection with Library facility renovation and addition.

D. Assets, Liabilities and Equity

1. Cash and Investments

- (l) The investment policy of the Library allows it to invest in instruments allowed by State of Michigan statutes. State statutes authorize the Library to invest funds as follows:
 - (a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States
 - (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II)
 - (c) In commercial paper rated at the time of purchase with the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase
 - (d) In repurchase agreements consisting of instruments listed in subdivision (a).
 - (e) In banker's acceptances of United States banks.
 - (f) In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
 - (g) In mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat, 789, 15 U.S.C. 80a-1 to 80a-3 to 80a-74, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2006

disqualified as a permissible investment solely by reason of either of the following:

- a. The purchase of securities on a when-issued or delayed delivery basis.
 - b. The ability to lend portfolio securities as long as the mutual fund received collateral at all times equal to at least 100% of the value of the securities loaned.
 - c. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes
- (h) In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA7, MCL 124.501 to 124.512.
- (i) In investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (II) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- (III) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	7 years
Furniture and Fixtures	10 years

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2006

Equipment	5 years
Leasehold Improvements	20 years
Buildings	50 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$500 and all books.

The Library purchased the former public middle school building to be remodeled to a new facility for Charlevoix Public Library. Funded by a general obligation bond mortgage, construction proceeded during the entire fiscal year. As of June 30, 2006, the project was almost 90% complete and under budget. Occupancy occurred in October 2006.

3. Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

6. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

7. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2006

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

An operating budget is prepared annually. The operating budget includes proposed expenditures and the means of financing them.

The budget is approved by the Library Board prior to the start of the fiscal year that it covers.

All transfers of budget amounts between accounts within the General Fund must be approved by the Library Board.

The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board. The budget was amended twice during the year.

Budget appropriations lapse at the end of the fiscal year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

DETAILED NOTES ON GENERAL FUND AND ACCOUNT GROUP

A. Deposits and Investments

The Library's deposits and investments are all on deposit with Charlevoix State Bank, Citizens Bank of Charlevoix and Comerica Bank.

Following is a breakdown of the deposits and investments:

Deposits – At year-end, the Library's bank balance of cash and cash equivalents was \$3,295,720, of which \$2,138,225 was covered by federal depository insurance and \$1,157,495 was uninsured and uncollateralized.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2006

B. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance of July 1, 2005	Additions	Deletions	Balance of June 30, 2006
Capital assets not being depreciated				
Construction in Progress	\$ 1,563,731	\$ 4,906,229	\$ -	\$ 6,469,960
Capital assets being depreciated				
Buildings	153,658	-	-	153,658
Leasehold Improvements	9,659	-	-	9,659
Equipment	43,409	7,763	-	51,172
Furniture and Fixtures	89,293	-	-	89,293
Book Collection	533,419	33,142	-	566,561
Total Capital Assets, being depreciated	829,438	40,905	-	870,343
Less: Accumulated Depreciation	(640,648)	(47,692)	-	(688,340)
Total Capital Assets	<u>\$ 1,752,521</u>	<u>\$ 4,899,442</u>	<u>\$ -</u>	<u>\$ 6,651,963</u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$47,692.

C. Other Assets

Bond issue expenses are being amortized under the straight-line method over the term of the bonds. The Statement of Activities reflects \$2,729 for the amortization of the bond issue expense in 2006.

D. Property Taxes

Property taxes levied by the various municipalities are periodically remitted to the Library. Property taxes are assessed as of January 1st and billed due December 1st. Unpaid taxes become delinquent as of February 14th and are subject to penalties and interest after that date.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2006

For the year ended June 30, 2006, the municipalities levied the following amount per \$1,000 of taxable valuation.

<u>PURPOSE</u>	<u>MILLS</u>
General Operating	.4518
General Operating	.6450
Debt	.6490

The county in which the Library is located has a tax revolving fund which allows the county to pay off the various taxing units for their share of the current year real property taxes returned delinquent. As of June 30, 2006, the Library had taxes receivable for personal property taxes in the amount of \$2,547.

E. Long-Term Debt

A summary of the long-term transactions for the Library for the year ended June 30, 2005, is as follows:

	<u>Bonds Payable</u>
Long-term debt payable at July 1, 2005	\$7,380,000
Additions	-
Repayment	<u>180,000</u>
Long-term debt payable at June 30, 2006	<u><u>\$7,200,000</u></u>

Bonds, loan and contract payable at June 30, 2006 are comprised of the following:

General Obligation Bonds

Building and site bonds of \$7,450,000 issued September 2004, due in annual installments of \$70,000 to \$590,000 through May, 2024; interest at 3 percent to 4.5 percent

\$ 7,200,000

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2006

Debt Service Requirements

Annual debt service requirements to service all debt outstanding (excluding compensated absences) including both principal and interest, as of June 30, 2006 are as follows:

<u>Year Ending 6/30</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Repayments Remaining</u>
2007	\$ 210,000	\$ 283,446	\$ 493,446
2008	240,000	277,145	517,145
2009	270,000	269,945	539,945
2010	300,000	261,845	561,845
2011	315,000	252,095	567,095
2012-2016	1,835,000	1,077,991	2,912,771
2017-2021	2,335,000	680,169	3,015,169
2022-2024	1,695,000	153,694	1,848,694
	<u>\$ 7,200,000</u>	<u>\$ 3,256,110</u>	<u>\$ 10,456,110</u>

Interest

Total interest paid during the year on bonds totaled \$287,992.

F. Compensated Absences Liability

Employees of the Library are entitled to paid sick days depending on job classification, length of service and other factors. At June 30, 2006, the accrued expense for compensated absences was \$14,317. This liability is recorded only in the government-wide financial statements as a noncurrent liability.

	<u>COMPENSATED ABSENCES</u>
Compensated Absences at July 1, 2005	\$ 18,279
Net Increase/(Decrease)	<u>(3,962)</u>
Compensated Absences at June 30, 2006	<u>\$ 14,317</u>

G. Short-Term Debt

The Library incurred no short-term debt activity for the year.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2006

IV. OTHER INFORMATION

A. Employee Retirement System

Charlevoix Public Library has adopted a retirement plan for eligible employees hired after July 1, 1997. The plan is administered by ICMA Retirement Corporation and is a defined contribution money purchase plan. Currently under this plan, the Library contributes on behalf of full-time contracted employees 11 percent of the employee's regular wages (not including overtime and bonuses). The amount contributed for the year ended June 30, 2006 was \$6,958. All employees are eligible to participate in this plan, but the Library is not obligated to make contributions on their behalf. However, there is one employee registered in a prior plan, for which the Library has continued to contribute. The cost of these contributions for the year was \$2,128.

B. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Library participates in two pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The Library has not been informed of any special assessments being required in the past 2 years.

The Library continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

Charlevoix Public Library

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For The Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Local Sources				
Property Tax Levy	\$ 726,300	\$ 726,300	\$ 738,905	\$ 12,605
Earnings on Investments and Deposits	5,000	5,000	15,624	10,624
Grants	10,000	10,000	9,714	(286)
Donations	2,400	2,400	2,839	439
Other:				
Friends of Library	5,000	5,000	12,862	7,862
Copy Machine Receipts	3,300	3,300	2,964	(336)
Book Fines	5,000	5,000	5,035	35
Refunds and Reimbursements	3,200	3,200	13,155	9,955
Miscellaneous	400	400	218	(182)
Total Other	16,900	16,900	34,234	17,334
Intermediate Sources				
Penal Fines	45,000	45,000	52,295	7,295
State Sources				
State of Michigan	4,000	4,000	7,777	3,777
Total Revenues	809,600	809,600	861,388	51,788
Expenditures:				
Salaries				
Director	54,075	54,075	57,355	3,280
Other	154,925	154,925	150,119	(4,806)
Total Salaries	209,000	209,000	207,474	(1,526)
Employee Fringe Benefits				
Employee Insurance	26,000	26,000	23,386	(2,614)
Retirement	9,000	9,000	9,086	86
Social Security	14,000	14,000	15,366	1,366
Worker's Compensation	750	750	846	96
Total Employee Fringe Benefits	49,750	49,750	48,684	(1,066)
Professional Services	23,700	23,700	23,076	(624)

Charlevoix Public Library

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For The Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Occupancy				
Utilities	12,950	12,950	12,844	(106)
Insurance - Property and Liability	5,800	5,800	5,520	(280)
Repairs and Maintenance	5,500	5,500	1,845	(3,655)
Total Occupancy	24,250	24,250	20,209	(4,041)
Supplies and Materials				
Library Books	32,700	32,700	30,857	(1,843)
Library Books Processing	3,000	3,000	2,285	(715)
Periodicals	7,200	7,200	6,887	(313)
Postage	5,500	5,500	4,326	(1,174)
Audio Visual	6,400	6,400	5,989	(411)
Other Supplies	13,100	13,100	6,168	(6,932)
Total Supplies and Materials	67,900	67,900	56,512	(11,388)
Other Operating Expenses				
Travel	2,000	2,000	3,128	1,128
Printing/Publishing	6,000	6,000	7,331	1,331
Dues and Fees	11,000	11,000	12,983	1,983
Refund of Prior Year Property Taxes	400	400	1,127	727
Programming	1,200	1,200	1,150	(50)
Reimbursable	3,200	3,200	10,780	7,580
Grants	10,000	10,000	9,414	(586)
LTCR Expenditure	800	800	409	(391)
Miscellaneous	2,750	2,750	4,536	1,786
Total Other Operating Expenses	37,350	37,350	50,858	13,508
Capital Outlay	14,000	14,000	7,763	(6,237)
Total Expenditures	425,950	425,950	414,576	(11,374)
Excess of Revenues Over Expenditures	383,650	383,650	446,812	63,162
Fund Balance - Beginning of Year	398,389	398,389	398,389	-
Fund Balance - End of Year	\$ 782,039	\$ 782,039	\$ 845,201	\$ 63,162

Charlevoix Public Library

Statement of Revenues, Expenditures and Changes in Fund Balances Budget Comparison - Capital Projects Fund For The Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues:				
Earnings on Investments and Deposits	\$ 20,000	\$ 20,000	\$ 44,547	\$ 24,547
Donations	390,000	390,000	370,731	(19,269)
Reimbursements	-	-	4,925	4,925
Total Revenues	410,000	410,000	420,203	10,203
Expenditures:				
Capital Outlay	-	-	4,909,229	4,909,229
Total Expenditures	-	-	4,909,229	4,909,229
Excess of Revenues Over (Under) Expenditures	410,000	410,000	(4,489,026)	4,899,026
Fund Balance - Beginning of Year	6,390,453	6,390,453	6,390,453	-
Fund Balance - End of Year	<u>\$ 6,800,453</u>	<u>\$ 6,800,453</u>	<u>\$ 1,901,427</u>	<u>\$ 4,899,026</u>

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
VELDA K. KAMMERMANN

110 Park Avenue
Charlevoix, Michigan 49720
Telephone (231) 547-4911
Facsimile (231) 547-5911

November 13, 2006

To the Board of Trustees
Charlevoix Public Library

We have audited the financial statements of Charlevoix Public Library for the year ended June 30, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated, July 10, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Charlevoix Public Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Charlevoix Public Library are described in Note 1 to the financial statements. The Governmental Accounting Standards Board issued a new reporting model for governmental units, which was implemented for the fiscal year ended June 30, 2006. The daily operations and recording transactions did not change significantly, however, the Library is required to maintain additional records for the year-end adjustments to the final presentation format. We noted no transactions entered into by the Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Library's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Library, either individually or in the aggregate, indicate matters that could have a significant effect on the Library's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

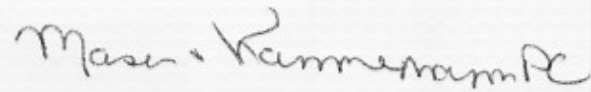
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Trustees and management of Charlevoix Public Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Mason & Kammermann PC". The signature is written in dark ink and is positioned above the printed name of the firm.

Mason & Kammermann, P.C.
Certified Public Accountants